

Message Text

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E.O. 11652: N/A
TAGS: EINV EMIN MU
SUBJECT: INVESTMENT PROPOSAL: IRON AND STEEL COMPLEX FOR OMAN

REF: (A) 75 MUSCAT 989, (B) MUSCAT 79

BEGIN UNCLASSIFIED

1. ADVISORS TO MINISTRY OF COMMERCE INDICATE THAT OMANGOV PLANS FOR STEEL MANUFACTURING HERE ARE GOING WELL BEYOND SMALL RE-ROLLING PLANT REPORTED IN REFTEL (B). STUDIES ARE GOING FORWARD ON CONSTRUCTION OF SPONGE IRON PLANT AND STEEL BILLET PLANT. ENTIRE COMPLEX WOULD COST \$250-\$300 MILLION. NUMBER OF JAPANESE, CANADIAN, GERMAN, AND BRITISH COMPANIES HAVE ALREADY CONTACTED MINISTRY CONCERNING SETTING UP PROJECT AS JOINT VENTURE. WHILE OMANGOV WOULD EXPECT FOREIGN PARTNER TO PUT UP MOST OF CAPITAL, IT IS STILL TRYING TO OBTAIN PROJECT LOAN FROM NEIGHBORING ARAB COUNTRIES. WE BELIEVE THAT PROJECT HAS POTENTIAL AND THAT EXIMBANK FINANCING FOR THIS PROJECT MIGHT MERIT STUDY.

2. KEY TO PROJECT'S PROFITABILITY IS USE OF NATURAL GAS FOR DIRECT REDUCTION OF IRON ORE TO SPONGE IRON. NATURAL GAS NOW BEING FLARED AT INTERIOR OIL FIELDS WOULD BE PIPED TO COAST AS FUEL FOR COMPLEX. SIX HUNDRED THOUSAND TONS OF ORE WOULD BE IMPORTED (POSSIBLY FROM INDIA) FOR PROJECT, AND THIS WOULD BE REDUCED TO 400,000 TONS OF SPONGE IRON. TWO HUNDRED THOUSAND TONS OF SPONGE IRON WOULD BE EXPORTED DIRECTLY, WHILE ANOTHER 180,000 TONS WOULD BE TURNED INTO STEEL BILLETS.

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SOME OF THE BILLETS WOULD BE EXPORTED, BUT 120,000 TONS WOULD BE USED IN OMAN FOR REROLLING MILL (REFTEL B). END UNCLAS.

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3. TOTAL COST FOR SPONGE IRON REDUCTION UNIT IS ESTIMATED AT \$120 MILLION. STEEL BILLET PLANT WOULD COST \$100 MILLION, AND REROLLING MILL \$25 MILLION. AT PRESENT, COMMERCE MINISTRY HOPES TO LOCATE COMPLEX IN NEW INDUSTRIAL SITE BEYOND SEEB AIRPORT. ANCILLARY ROADS, WATER, ELECTRIC POWER FACILITIES, AND OTHER INFRASTRUCTURE NEEDED TO SUPPORT STEEL COMPLEX OF THIS SIZE MIGHT COST AS HIGH AS \$200 MILLION, BUT THESE COSTS WOULD PROBABLY BE BORNE ENTIRELY BY OMANGOV.

4. COMMENT: IT WILL TAKE SEVERAL YEARS BEFORE SPONGE IRON/STEEL MILL COMPLEX CAN GET UNDERWAY. REROLLING MILL COULD GET STARTED MUCH SOONER. MAIN LIMITING FACTORS ARE LACK OF FUNDS AND DELAY IN PIPING NATURAL GAS FROM INTERIOR TO COAST. OMANGOV IS SHOWING SIGNS OF MOVING ON PIPELINE PROJECT AND PROJECT FINANCING SEEMS TOUGHTEST NUT TO CRACK. GOVERNMENT IS SEEKING AN ATTRACTIVE PACKAGE OF ENGINEERING KNOW-HOW, SUPPLY OF EQUIPMENT, AND LOW-COST FINANCING FOR PROJECT, BUT UP TO NOW, THEY HAVE NOT RECEIVED RIGHT OFFER. WE UNDERSTAND THAT OMANGOV MAY BE WILLING TO ACCEPT LESS THAN NORMALLY REQUIRED 35 PERCENT OWNERSHIP OF JOINT VENTURE. OMANGOV WOULD ALSO GUARANTEE PROJECT LOANS FROM SOURCE SUCH AS EXIMBANK

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5. ACTION REQUESTED: DEPARTMENT AND USDOC OUTLINE PROPOSALS TO INTERESTED AMERICAN STEEL COMPANIES. USS ENGINEERS AND CONSULTANTS, INC., OF 600 GRANT ST., PITTSBURGH, PA 15230 (SUBSIDIARY OF UNITED STATES STEEL CORP.) HAS ALREADY WRITTEN SEVERAL TIMES TO EMBASSY ABOUT THIS PROJECT, AND WE WOULD HOPE THAT THERE WILL BE FOLLOW-UP WITH UEC. IF THERE IS FAVORABLE RESPONSE FROM AMERICAN FIRMS, WE REQUEST THAT THEY CONTACT EMBASSY SO THAT WE MAY DISCUSS PROJECT FURTHER WITH APPROPRIATE OMANGOV OFFICIALS.

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